

February 1, 2013

Susan K. Fawcett  
Records Officer  
Office of the Chief Information Officer  
United States Patent and Trademark Office  
P.O. Box 1450  
Alexandria, VA 22313-1450

RE: Comments on “Grace Period Study”

Dear Ms. Fawcett:

After reviewing the description of the proposed Grace Period Study, 77 C.F.R. 73452 (Dec. 10, 2012), I have the following comments regarding this important proposed study. Below I describe how the study may help clarify the impact of the one-year grace period on the competitiveness of U.S. firms in global markets. These comments are drawn from a longer, more detailed article, entitled “The Competitive Advantage of Weak Patents,” a draft of which can be found at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2192611](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2192611).

### **1. The Impact of Patents on U.S. Competitiveness**

The competitiveness of U.S. firms in global markets is vital to U.S. economic prosperity. In some respects, strong U.S. patent rights can foster U.S. competitiveness. By providing inventors with exclusive rights to their discoveries, U.S. patents encourage innovation, and U.S. companies frequently outcompete their international rivals by developing better products or cheaper manufacturing processes.<sup>1</sup> U.S. patents also encourage inventors to disclose their discoveries, ostensibly enriching the storehouse of knowledge that U.S. firms rely upon to innovate.

These potential salutary effects of U.S. patents, however, sometimes provide U.S. firms with little meaningful advantage over foreign rivals. To start, the disclosure function of U.S. patents may benefit both U.S. firms and foreign rivals because U.S. patents and applications are publicly available and can be accessed anywhere in the world with an Internet connection. Likewise, foreign firms frequently benefit from the incentive effect of U.S. patents because inventors

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<sup>1</sup> See generally MICHAEL E. PORTER, THE COMPETITIVE ADVANTAGE OF NATIONS (1990) (identifying and analyzing factors impacting competitiveness).

worldwide can obtain U.S. patents.<sup>2</sup> Indeed, the United States has signed international treaties that help foreign inventors obtain strong patent rights in the United States, including the Patent Cooperation Treaty and the Agreement on Trade-Related Aspects of Intellectual Property Rights. In addition, because only U.S. patents can be asserted in the United States and because the U.S. economy is the largest consumer market in the world, foreign inventors are obtaining U.S. patents in record numbers. In recent years, the U.S. Patent Office has issued more U.S. patents to foreign inventors than to U.S. inventors.<sup>3</sup> Many of these U.S. patents protect inventions that help foreign firms compete against U.S. companies.

Moreover, in some respects strong U.S. patent rights may actually undermine U.S. competitiveness. Specifically, the exclusive rights conveyed by U.S. patents inhibit the commercial activities of U.S. firms but often have less effect on firms in foreign jurisdictions due to limits on the extraterritorial effect of U.S. law. For example, a U.S. patent can prevent a U.S. firm from making a product in the United States and exporting it to foreign markets. A foreign firm, in contrast, often can make and sell products beyond the reach of U.S. patent laws. Perhaps more importantly, strong U.S. patents limit rivalry *among* firms in the United States. For many years, leading economists have asserted that rivalry among domestic firms substantially impacts competitive advantage.<sup>4</sup> Intense domestic rivalry drives firms to improve and to reduce internal inefficiencies. Domestic rivalry also encourages the development of advanced factors of production and helps to spawn important supporting industries, like suppliers and manufacturers of related products. Strong U.S. patent protection may limit the opportunities for domestic rivalry to hone the competitive edges of U.S. firms, so that they are therefore less able to compete in global markets. In contrast, U.S. patent protection will not significantly affect rivalry among foreign firms in their home countries.

Just as U.S. patents can limit the competitive advantage of U.S. firms by undermining competition by and among U.S. firms, foreign patents can potentially restrict competition by and among foreign firms. However, foreign patents often do not equilibrate competitive conditions, in part because foreign patents provide weaker rights than U.S. patents and thus affect

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<sup>2</sup> See William Hubbard, *Competitive Patent Law*, 65 FLA. L. REV. (forthcoming 2013), available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1980383](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1980383). This equal access to U.S. patents is generally good for the U.S. economy. See *id.* (arguing against protectionist patent law).

<sup>3</sup> Patent Tech. Monitoring Team, *U.S. Patent Statistics, Calendar Years 1963-2010*, U.S. PATENT & TRADEMARK OFF. (June 2011), [http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us\\_stat.pdf](http://www.uspto.gov/web/offices/ac/ido/oeip/taf/us_stat.pdf).

<sup>4</sup> PORTER, *supra* note 1, at 117.

competition less in foreign countries.<sup>5</sup> The one-year grace period is an example of an aspect of U.S. patent law that provides more robust rights in the United States than are available under the patent laws of many other foreign countries: An inventor can publicly disclose an invention up to a year before filing a patent application without foregoing U.S. patent protection, but most other jurisdictions lack such a grace period. In these countries, any public disclosure prior to the effective filing date for a patent application invalidates the patent. In this respect, foreign patents are thus easier to invalidate than U.S. patents.

## 2. The Practical Utility of Empirically Studying the One-Year Grace Period

Although differences between U.S. and foreign patent laws may impact the competitiveness of U.S. firms in global markets, it is not always clear whether eliminating such differences will increase U.S. competitiveness. Sometimes, aspects of U.S. patent law that provide rights more robust than are available under foreign patent laws still foster U.S. competitiveness. As mentioned earlier, strong U.S. patent rights also promote U.S. competitiveness by providing robust incentives to invent and by supporting early disclosure of new discoveries. Although foreign firms can benefit from such incentives and disclosures, foreign firms often face higher costs in doing so, like translation costs. Furthermore, because of other differences between the United States and other countries, U.S. firms might be better able to take advantage of strong U.S. patent rights than foreign firms. For example, firms in countries with few highly educated workers may face prohibitive costs in discovering new inventions. As a result, the actual incentive benefits of strong U.S. patents sometimes may be greater for U.S. firms than for foreign firms, and this U.S. advantage might outweigh any harm to U.S. competitive conditions.

Other times, however, harmonizing U.S. and foreign patent laws may increase U.S. competitiveness by ensuring that U.S. and foreign firms operate under similar competitive conditions. Even in such a situation, it will often be unclear whether harmonization should be achieved by weakening U.S. patent law or by strengthening foreign patent law. Whether and how U.S. patent law should be changed to maximize U.S. competitiveness – or whether the United States should lobby foreign jurisdictions to strengthen their patent laws – thus critically depends on the incentive effects of U.S. patents on U.S. and foreign firms and on the impact of U.S. and foreign patents on competition. Unfortunately, empirical data on these costs and benefits is scarce.

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<sup>5</sup> COUNCIL OF ECONOMIC ADVISERS TO THE PRESIDENT OF THE UNITED STATES, THE ECONOMIC REPORT OF THE PRESIDENT 225 (2006) (“Most indices of the strength of intellectual property protection tend to show that the United States is among the countries with the highest level of protection.”).

The proposed Grace Period Study would help to fill this void by identifying “commercial opportunities lost [by European inventors] as a result of the lack of grace period,” which may help to quantify the extent to which weaker patent laws in European countries provide smaller incentives to invent. Significantly, foreign countries have been reluctant to harmonize some aspects of their patent laws to align with strong U.S. patent law. If empirical data demonstrates benefits from the one-year grace period, it may help the United States to encourage foreign governments to strengthen their patent laws in at least one context. Alternatively, if the study shows that the grace period provides little additional incentive for inventors, eliminating it will improve competition in the United States and thus increase U.S. competitiveness.

### **3. Enhancing the Quality, Utility, and Clarity of the Information to Be Collected.**

The study as described briefly in the Federal Register can provide much useful data, but the study could also solicit additional information to determine more effectively the impact of the one-year grace period on U.S. competitiveness. Specifically, to assess the extent to which the one-year grace period under U.S. patent law provides foreign inventors with incentives to invent, the study could inquire whether the European respondents sought patent protection in the United States following their journal publication of their discoveries. Indeed, a respondent’s failure to rely on the one-year grace period to seek patent protection in the United States may suggest that the respondent’s publication does not reflect a lost commercial opportunity. Such a respondent may not have obtained a patent in a European country even if the patent laws of that country included a disclosure grace period.<sup>6</sup>

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<sup>6</sup> Indeed, many European inventors seek patent protection in the United States. In 2011, the European Patent Office issued approximately 32,500 patents to inventors from EU member countries. In the same year, the U.S. Patent Office issued about 32,700 patents to inventors from EU member countries. See *IP Statistics Data Center*, WIPO (Jan. 9, 2013), <http://ipstatsdb.wipo.org/ipstats/ipstats/patentsSearch>.

#### 4. Conclusion

The proposed study will provide important empirical data regarding the one-year grace period. The study might help the United States to convince other jurisdictions to amend their patent laws to provide similar grace periods. On the other hand, the data could suggest that the United States should abolish the grace period because it undermines U.S. competitiveness. In any event, I look forward to reviewing the results of the study.

Sincerely,

A handwritten signature in blue ink that reads "William Hubbard".

William Hubbard

Assistant Professor of Law

University of Baltimore, School of Law  
1420 N. Charles Street, Baltimore, MD 21201